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SUBJECT: Bahamas and the EU Economic Partnership Agreement - impact on U.S. commerce?

¶1. This is an action cable see paragraph 10.

¶2. Summary: The Bahamas recently joined the Forum of Caribbean States (CARIFORUM) in signing the Economic Partnership Agreement (EPA) with the European Union (EU). Opponents argued, with some reason, that not even the Bahamian government (GCOB) fully understood what it had signed and mocked the GCOB for prioritizing free trade with the EU (5% imports) rather than the U.S. (75% imports). PM Ingraham privately told us his main concern with the EPA was that the U.S. would seek the same concessions for American business. A key leader of the opposition, which itself supports the EPA, explained that the agreement will bind The Bahamas over time to enact badly needed but highly unpopular tax reform, moving away from its archaic tariff-based tax structure while blaming the EPA for the change. End Summary.

GCOB and Loyal Opposition Fully Supports the EPA

¶3. In October, the GCOB signed onto the Economic Partnership Agreement with the EU and CARIFORUM. The EP refurbishes the EU's trade arrangements with the African, Caribbean, and Pacific (ACP) countries into a WTO consistent trade pact that aims at the eventual elimination of duty on EU and CARIFORUM imports over the next 25 years.

¶4. The GCOB belatedly launched a public campaign in support of the EPA to explain the positive benefits of signing such an agreement and ran a 16-page supplement written for the average citizen to explain how the EPA will promote investment opportunities from the EU and create more jobs in The Bahamas. Oddly, a critical "goods schedule" was omitted in a 16-page supplement newspaper insert.

¶5. Imports from the EU into the Bahamas currently amount to less than 5%, while 75% of imports come from the United States. Senior government officials admit that the impact of the EPA on trade relations with the U.S. has not been studied. Apparently Bahamian officials did not regularly participate in EPA discussions and never asked CARICOM's trade office to look into an economic impact study. High end products such as leather goods and watches are the major EU imports while The Bahamas is a net exporter to the EU with lobster being the largest export (others include polymers out of Grand Bahamas and Bacardi rum, although Bacardi has recently announced it will close its New Providence distillery). Already 40% of imports from the EU are duty free (perfumes, watches) while the U.S. accounts for the vast majority of other goods such as food products, clothing, electronics, vehicles and hotel and restaurant supplies. Bahamian expectations are that the proximity of the U.S. to The Bahamas will continue to make the U.S. the country's vital trade partner. Asked about Most Favorable Trade Status with The Bahamas, senior Ministry of Finance officials said simply that the current trade agreement between The Bahamas and the U.S. is set to expire next year and they are preparing to renegotiate.

¶6. The Ministry officials noted that a study on the effect on the national tax structure would be useful, commenting that they expect a 6 million dollar per year loss in revenue from implantation of the EPA.

Why Sign the EPA

¶17. According to opposition MP Fred Mitchell, foreign minister in the government that agreed to sign the EPA, the then-PLP government signed onto the EPA in order to more closely integrate the Bahamian economy into the world economy. Mitchell explained that the government had no choice but to sign the EPA or face the collapse of the crawfish industry. He also said that signing the EPA is preparation for the WTO and perhaps more significantly the introduction of a value added tax plan. Minister of State for Finance Zhivargo Laing has denied this and indicated that a tax plan will not be introduced for at least another ten years. (Comment: Whether or not this is true, it is clear that the Bahamian government would have to be creative in the meantime to offset the cost of lost revenue as a result of the EPA and to cover expenses related to the implementation of new legislation governing the EPA. End comment.)

Public Confused, Reaction Mixed

¶18. Public reaction to the EPA has been mixed. Private sector businesses are generally supportive. Hank Ferguson, economic consultant to The Bahamas Chamber of Commerce, told Commercial Specialist the GCOB "stands to lose \$10-\$14 million in customs revenues annually" if the EPA is not signed. Reaction from the general public, on the other hand, has been lukewarm. Town hall meetings arranged to address concerns of the Bahamian public were poorly attended. Many are confused about the benefits to the individual and worry the EPA will allow EU and CARIFORUM citizens to take away jobs from Bahamians. An opt-out schedule of economic sectors reserved for Bahamians is public but has not been actively disseminated or discussed.

¶19. The Chairman of Bahamians Agitating for a Referendum on the Free Trade Area of the Americas (BARF) is opposed to the EPA. He publicly scolded the GCOB for agreeing to sign the EPA without first consulting the public. Deputy leader of The Bahamas Democratic Movement also protested the EPA, saying competition from EU companies will negatively affect the economy. Despite the public outcry, opposition groups do not have significant following and there have been no formal protests or petitions signed against the EPA. Both the governing Free National Movement (FNM) and opposition PLP feel preserving duty free access to EU markets is essential to the Bahamian economy.

¶10. Action request: Post requests Department views on the EPA, given the complexities involved in the EPA and the likely impact it will have on U.S. commerce with the regions but particularly with The Bahamas.

SIEGEL